



## ACCOUNTABLE ASSISTANCE FOR AFGHANISTAN (A3)

Findings and Recommendations



*An in-depth review of the nature and extent of fiscal vulnerabilities of USAID programs in Afghanistan and recommendations for reforms that would enhance assistance oversight.*

**Christopher Bodle**  
**Diane Ray**  
June 2011

## TABLE OF CONTENTS

Acronyms	3
Executive Summary	4
Introduction	5
Background	6
Interagency Efforts	7
Contracting Guidance	8
Risks to USAID Assistance	9
Safeguarding USAID Assistance	11
Implementation	14

### **Attachments**

Tab 1: COMISAF's Counterinsurgency Contracting Guidance, September 8, 2010

Tab 2: U.S. Embassy/Kabul Contracting Oversight in Counterinsurgency Strategy,  
November 3, 2010

## ACRONYMS

A3	Accountable Assistance for Afghanistan
ATFC	Afghan Threat Finance Cell
CENTCOM	United States Central Command
CJIATF	Combined Joint Inter-Agency Task Force
COIN	Counterinsurgency
COMISAF	Commander of the NATO ISAF
COPP	Compliance and Oversight of Partner Performance, USAID/OAA
CPN	Criminal Patronage Network
DoD	United States Department of Defense
EPLS	Excluded Parties List System
NATO ISAF	North Atlantic Treaty Organization International Security Assistance Force
OAA	Office of Acquisition and Assistance, USAID
OAPA	Office of Afghanistan and Pakistan Affairs, USAID
PLSO	Partner Liaison Security Office, USAID/Afghanistan
PSC	Private Security Contractor
RC	Regional Command
RIG	Regional Inspector General, USAID
SEC	Office of Security, USAID
SIGAR	Special Inspector General for Afghanistan Reconstruction
USAID	United States Agency for International Development
USFOR-A	United States Forces- Afghanistan
USG	United States Government

## EXECUTIVE SUMMARY

With billions of contracting dollars being spent in Afghanistan by the U.S. Government (USG) there is an urgent need for more stringent oversight to help ensure development money is being spent in ways that limit potential support to adversarial groups. Over the past few years, there have been accusations in the news alleging that a considerable percentage of USAID's development funds in Afghanistan are being redirected to the Taliban and other malign groups. In September 2010, the USAID Regional Inspector General (RIG) and the Afghan Threat Finance Cell (ATFC) both released reports that included these allegations.

Although USAID has been highlighted in recent reporting, this issue appears to be systemic across all development endeavors in Afghanistan. Intelligence community briefings point to the inevitability, in a cash based economy, of losing upwards of 20 percent of money to graft. They further state the only way to achieve no loss of development funds would be to stop all programs in country. As a total cessation of work is not an option, multiple interagency working groups have been established to address shortcomings in vetting of recipients, contract design, and oversight mechanisms to help quell the flow of funds to these groups.

To help focus support on internal USAID processes, and to work in conjunction with the interagency groups that are focused on threat financing, USAID established the Accountable Assistance for Afghanistan (A3) initiative. The team's mission is to help ensure that the Agency is taking the steps necessary to limit the likelihood of development assistance directly, or inadvertently, supporting malign groups or being diverted from their development purpose by extortion or corruption.

A3 recommends USAID increasing its safeguards in four areas, two of which strengthen our pre-award processes, and two that strengthen our post-award implementation.

### **Pre-Award**

- **Award Mechanisms** – Increase use of assistance awards that provide the most visibility on projects costs and limit layers of subcontracts.
- **Vetting** – Perform security checks on potential USAID implementing partners. Vetting is performed on third-country and Afghan companies and key individuals.

### **Post-Award**

- **Financial Controls** – Conduct audits of all locally incurred costs of program-funded implementing partners.
- **Project Oversight** – Devolve project monitoring responsibilities to USAID personnel in the five regional commands to provide real time data to contract staff in Kabul.

USAID/Afghanistan (the Mission) is already implementing a number of recommendations and has dedicated fulltime staff to the effort. Although it will not prove to be an easy task, through a concerted headquarters, Mission, and field effort, USAID will be able to effectively continue to fill its vital role in the development and stability of Afghanistan while limiting the potential diversion of assistance funds.

## INTRODUCTION

In October 2010, USAID established the Accountable Assistance for Afghanistan initiative to help ensure that the Agency is taking the steps necessary to limit the likelihood of development assistance directly or inadvertently supporting malign groups. The A3 team includes Marcus Johnson and Jeffrey Nedoroscik from the USAID Office of Acquisition and Assistance (OAA), Diane Ray from the Office of Afghanistan and Pakistan Affairs (OAPA), and Christopher Bodle and Michael Murphy from the Office of Security (SEC).

In October and December 2010 and May 2011, various members of the A3 team traveled to Afghanistan to determine ways for USAID/Afghanistan to address current risks to development funding, identify ways for USAID to limit the likelihood of it being diverted away from its intended purpose, and help the Mission identify the resources needed to fully implement the recommendations.

The A3 team traveled to all five Regional Commands (East, North, South, Southwest and West) throughout Afghanistan as well as to Kabul. They worked closely with USAID program staff, senior DoD contracting staff, USAID implementing partners, and numerous interagency task forces dedicated to combating corruption in order to develop the recommendations and identify the best practices outlined in this report.

During the visits, extensive consultations were held with staff in the following offices:

- Afghan Threat Finance Cell
- Combined Joint Logistics Procurement Support Board
- Council of the Colonels
- Special Inspector General for Afghanistan Reconstruction
- Task Force 2010
- Task Force Shafafiyat
- Task Force Spotlight
- USAID and DoD at Regional Commands East, North, South, Southwest and West
- USAID Implementing Partners
- USAID Regional Inspector General
- USAID/Afghanistan Office of the Mission Director
- USAID/Afghanistan Office of Acquisition and Assistance
- USAID/Afghanistan Partner Liaison Security Office

In addition to the consultations held in Afghanistan, the A3 team worked with members of the Intelligence Community and various offices within USAID/Washington to obtain background information and to establish the framework for this review.

## BACKGROUND

*“Where our money goes is as important as the service provided or the product delivered.” General David Petraeus<sup>1</sup>*

Over the past few years, reports of USAID acquisition and assistance funds being diverted to the Taliban and other malign groups in Afghanistan and throughout the world have been reported in the news. Additionally, the September 29, 2010, Regional Inspector General (RIG) report entitled, “A Review of Security Costs Charged to USAID Projects in Afghanistan”, recommended that USAID/Afghanistan:

- Conduct “appropriate” risk and impact assessments of current and proposed locations that are targeted for Local Governance and Community Development (LGCD) subprojects to determine if such locations are secure enough to allow for civilian implementation and monitoring efforts without interference from insurgent groups.
- Conduct an internal audit of all offices under the LGCD project to assess internal controls and take “appropriate” corrective actions on any material weaknesses identified and fraud uncovered.
- Direct Development Alternatives International (DAI) to carry out policies and procedures to perform “adequate” cost analysis of fair market prices, and detect and prevent inflated costs and possible fraudulent activity as part of its subcontracting process for the LGCD project.
- Develop an action plan to maintain a sufficient level of oversight on subcontracting and purchasing process by DAI for the LGCD project.

In addition to the RIG report, the U.S. Government (USG) Afghan Threat Finance Cell (ATFC) also released a classified report highlighting the likely flow of development funds to the Taliban in certain high-risk districts. The Intelligence Community has also stated in multiple briefings to USAID officials that the inherent risk of graft and corruption in a cash-based economy, where hundreds of millions of dollars are being spent each year, is high and that the only way to prevent the misuse of development funds would be to cease almost all work.

In light of these findings, USAID established the Accountable Assistance for Afghanistan (A3) initiative to work closely with USAID and interagency colleagues in Kabul, as well as in the Regional Commands, to determine the risks and implement additional safeguards to U.S. development assistance.

---

<sup>1</sup> COMISAF Counterinsurgency (COIN) Contracting Guidance, September 8, 2010.

## INTERAGENCY EFFORTS

### Interagency Anti-Corruption Task Forces

To minimize the likelihood of international assistance funds going to the insurgency, there are several interagency groups tasked with ensuring that the U.S. and international community's reliance on contractors does not ultimately undermine the progress made in Afghanistan:

- **CJIATF-Shafafiyat (ISAF):** "Shafafiyat" means "transparency." Task Force Shafafiyat focuses on corruption. The task force is led by ISAF and is coordinating closely with the U.S. Chief of Mission and the Afghan Office of the National Security Council. In coordination with the international community, and in support of GIRoA the mission is to foster a common understanding of the corruption problem, plan and coordinate ISAF anti-corruption efforts, and integrate ISAF anti-corruption activities with those of key partners.
- **Task Force 2010 (USFOR-A):** Taskforce 2010 (TF 2010) is dedicated to providing commanders and acquisition teams with situational understanding regarding the flow of contract funds in order to limit illicit access of those funds to criminals and insurgent networks.
- **Task Force Spotlight (USFOR-A):** Task Force Spotlight (TF Spotlight) was created in the summer of 2009 and its mission is to drive compliance with U.S. law, Office of the Secretary of Defense policy, Department of Defense Issuances and CENTCOM policy, in order to achieve accountability of armed security contractors; facilitate oversight of PSC's under contract with DoD; and support COIN and anti-corruption efforts in partnership with action agencies, operational commands, U.S. Embassy to facilitate growth of GIRoA's capability for self-sustaining security.
- **COIN Executive Steering Committee (USFOR-A):** The COIN Executive Steering Committee assesses progress and provides guidance for the implementation of COMISAF's COIN Contracting Guidance.
- **Afghan Threat Finance Cell (USG):** The Afghan Threat Finance Cell (ATFC) analyzes all-source reporting to determine funding sources of terrorist and insurgent groups. The ATFC includes civilian and military staff members and reports to the Terrorist and Insurgent Finance Working Group on Afghanistan at the U.S. National Security Council. ATFC was established in Afghanistan in 2008 and became fully operational in 2009.
- **Regional Command-East Counter Corruption Cell (USG):** The Counter Corruption Cell is a USG interagency effort to identify and target criminal patronage networks (CPNs) operating in Regional Command-East.

## Contracting Guidance

Recognizing the risks of contracting in a counterinsurgency environment, in the fall of 2010, the International Security Assistance Force and the U.S. Embassy Kabul released guidance for contracting and oversight in Afghanistan.

- **COMISAF's Counterinsurgency COIN Contracting Guidance**

On September 8, 2010, General Petraeus issued *COMISAF's Counterinsurgency COIN Contracting Guidance* (Tab 1) to Commanders, Contracting Personnel, Military Personnel, and Civilians of NATO ISAF and U.S. Forces-Afghanistan. The guidance outlines the following principles:

- Understand the role of contracting in COIN
- Hire Afghans first, buy Afghan products, build Afghan capacity
- Know those with whom we are contracting
- Exercise responsible contracting practice
- Integrate contracting into intelligence, plans and operations
- Consult and involve local leaders
- Develop new partnerships
- Look beyond cost, schedule and performance
- Invest in oversight and enforce contract requirements
- Act upon identification of linkages between contractors and CPNs.
- Get the story out on accomplishments of contracts.

- **U.S. Embassy's Contracting Oversight in Counterinsurgency Strategy**

Complementing COMISAF's COIN Contracting Guidance, on November 3, 2010, Ambassador Eikenberry issued the *Contracting Oversight in Counterinsurgency Strategy* (Tab 2) to all Mission personnel. The strategy highlights the central role that building Afghan capacity has in the counterinsurgency strategy, and sets forth the following guiding principles:

- **Afghan Leadership and Ownership:** Ensure that procurement responds to the needs of Afghans and is accountable to the Afghans it is meant to support.
- **Afghan Participation:** Promote the Afghan private sector in their management and delivery of goods, services and construction while fostering entrepreneurship.
- **Afghan Capacity Development:** Assist in developing Afghan labor force's skills and capabilities.
- **Afghan Sustainability:** Focus on business opportunities via local procurement thereby reducing support for the insurgency, making foreign assistance more effective, and ultimately reducing Afghan dependence on development assistance.

With regard to risks to U.S. funds, the strategy acknowledges the challenges of contracting in Afghanistan which include the geographic separation between Contracting Officers/Contracting Officer's Representatives and the location of an activity. It emphasizes the importance of building the capacity of local organizations, increasing the use of local procurement, increasing transparency in subcontracting, and improving post award management and oversight. It also states that recognition should be given to contracting officers who decline or delay an award because it is not possible to determine where the money would go or if adequate oversight is not possible.



## RISKS TO USAID ASSISTANCE

When development assistance funds are at risk of undermining USG efforts in Afghanistan, USAID, in conjunction with the battle space commander, must weigh the strategic importance of the project(s) against the possible risk of funding malign actors. The COMISAF Counterinsurgency Contracting Guidance provides a helpful description of the potential benefits and inherent risks of development projects in Afghanistan:

*“The scale of our contracting efforts in Afghanistan represents both an opportunity and a danger. With proper oversight, contracting can spur economic development and support the Afghan government’s and ISAF’s campaign objectives. If, however, we spend large quantities of international contracting funds quickly and with insufficient oversight, it is likely that some of those funds will unintentionally fuel corruption, finance insurgent organizations, strengthen criminal patronage networks, and undermine our efforts in Afghanistan.”<sup>2</sup>*

The ATFC and the Kabul-based task forces, as well as SIGAR investigators and the Counter Corruption Cell in RC-East confirmed to the A3 team that there are instances of development project funds being leaked to malign groups. The way funds go from a development project to a malign group was described as, not a straight path but through a sophisticated process of CPNs that are difficult to identify and disrupt.

SIGAR investigators in RC-East further describe the way funds are diverted to malign actors in two general categories.

1. **Voluntary:** An implementing partner has ties to malign groups and intentionally diverts project funds to the groups. In these instances, intimidation of other potential implementing partners may occur to prevent them from bidding on a project and ensure that the contract or grant goes to a supporter of a malign group.
2. **Extortion:** An implementing partner is threatened and forced to pay project funds to a malign group. This is often referred to as “classic organized crime” where any activity that occurs in a certain area must provide some financial support to the malign group that controls the area.

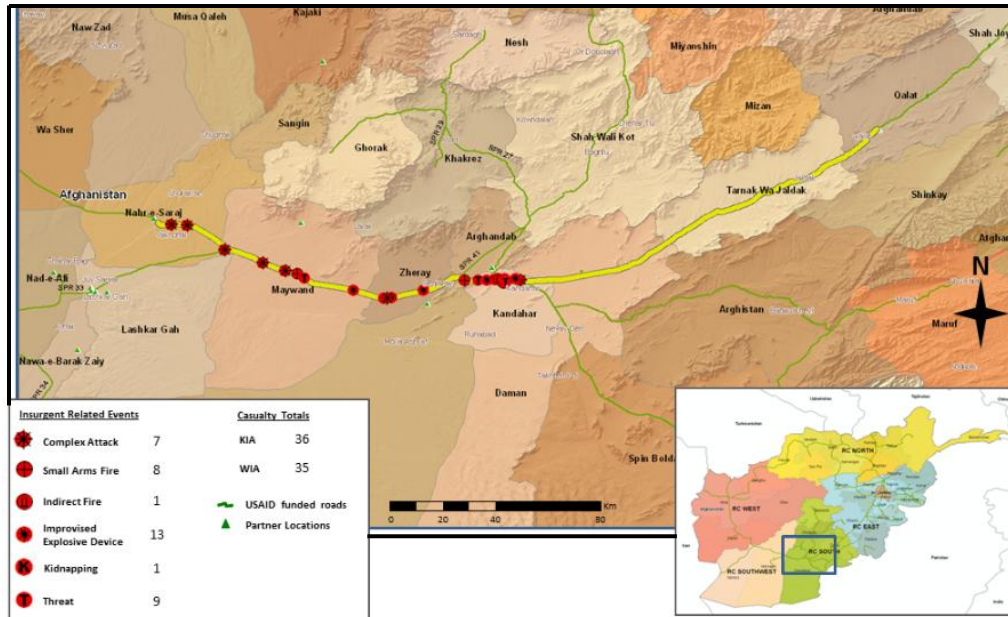
### High Risk Areas

The ATFC identifies districts that are the most susceptible of having funds diverted from development projects and redirected into the hands of the Taliban as high risk areas. USAID is focusing on identifying its activities in areas that are the most susceptible to extortion of funds by malign groups. Prioritizing the use of interagency partner vetting, tailored acquisition and assistance mechanisms, and enhanced project oversight for development activities in these high risk areas will help minimize the risks.

To help the Mission better visualize the areas of the country where implementation of programs would have the highest likelihood of funds being diverted to malign actors, the Mission’s Partner Liaison Security Office (PLSO) has developed a mapping based solution that overlays country-wide areas of control, project types, and partner reported security incidents.

---

<sup>2</sup> COMISAF Counterinsurgency (COIN) Contracting Guidance, September 8, 2010.



**2003-2011 West vs. East Partner Reported Incident Comparison on the Kabul-Kandahar- Heart Road**

As an example, the image above shows all reported incidents over a seven year period on two key sections of the Kabul-Kandahar-Heart Road. These near identical stretches of road were built in areas with similar terrain and population density yet they have very different reported incident histories. Based on the information, USAID can determine graphically where the risk of operating is the highest, and therefore where there is an active presence of malign groups.

### High Risk Projects

While all USAID projects are potentially at risk of funds being passed to the wrong hands, there are certain projects that are more vulnerable, and these must be addressed by USAID as a first priority for reform, especially those that are being implemented in high risk areas. Analyses performed by forensic accountants identify award mechanisms that are the most susceptible to corruption. These include, but are not limited to, fixed price contracts due to the limited expenditure documentation required, and projects with multiple layers of subcontractors due to USAID's limited visibility over subcontracts, making it easier for funds to be diverted and go unnoticed.

It is also important to recognize that the loss of development project funds due to petty corruption is more common than funds being diverted to malign groups. Most of the implementing partners interviewed confirmed that they have dismissed project staff for this reason. The majority of these instances are believed to be for personal financial gain, although based on the complex CPNs that exist, it is possible that some funds went to malign groups. However, whether for personal gain or for the financial support of a malign group, the same safeguards for development project funds must be practiced.

## **SAFEGUARDING USAID ASSISTANCE**

There are four general categories of safeguards for development project funds, two of which strengthen pre-award processes and two that strengthen post-award implementation.

### **Pre-Award**

- Award Mechanisms
- Vetting

### **Post-Award**

- Financial Controls
- Project Oversight

## **Award Mechanisms**

USAID has a variety of third-party award mechanisms, and each has strengths and weaknesses regarding their use in areas where there is a high risk of U.S. Government funds going into the wrong hands:

- *Fixed Price Contract:* Fixed price contracts pay a predetermined amount for project deliverables and shift to a maximum extent the risk of contract cost overruns and performance to the vendor. However, the ability of the USG to track (audit) contract funds flow is relatively difficult since there are minimal documentation requirements.
- *Fixed Obligation Grants:* The above explanation is essentially applicable to this type of mechanism. However, the award amount is limited to a maximum of \$500,000.00 over no longer than three years and importantly the limited recipient file documentation only has to be maintained for three years from the expiration date of the award.
- *Cost Reimbursable Contract:* Under a cost reimbursable contract, USAID reimburses a contractor as expenses occur and the risk of cost overruns and performance is placed primarily on USAID. This is a preferred contracting mechanism for a high risk area or project due to the ability of the USG to track (audit) costs through documentation.
- *Cost Reimbursable Grants and Cooperative Agreements:* Cost reimbursement awards shift cost performance risk to the Agency to the maximum extent, and maximizes the ability of the USG to track (audit) costs through documentation.
- *Small Grants Administered in the Field:* USAID direct hire employees in the field (outside of Kabul) may be delegated warrants to let and administer small awards up to \$25,000. This may be a good option for high risk areas and projects due to the more direct oversight of the project by the USAID employee. There are, however, implications for the Mission in providing the proper Acquisition and Assistance training and award administration for the otherwise qualified individual(s).
- *Interagency Awards:* These types of award mechanisms exist but are relatively limited in their use due to the relatively higher cost, timeliness of performance, reporting constraints and institutional capacity issues surrounding the agency/department selected.

## **Recommendations**

- Contract as directly as possible. Limit the amount of subcontractors to no more than two tiers.
  - Implement a USAID/Afghanistan OAA office approval process for an exception, if more than two tiers of subcontractors are required.

- Use an award mechanism that obligates recipients to track how development funds are spent.
  - Use cost-reimbursable, instead of fixed price, awards in order to only pay for costs incurred and track how funds are spent.
  - Reserve fixed price contracts for commodity purchases after determining fair market value.
  - Limit the use of cooperative agreements and grants, due to limited financial reporting requirements.
- Pay directly for goods and services. Eliminate intermediary agents or “broker dealers”.

### **Vetting**

To support the Agency and Mission's need to help ensure recipients of USAID funds don't have ties to malign groups, vetting of potential awardees will need to be conducted.

### **Recommendations**

- Initiate an immediate vetting solution requiring the vetting of potential non-American awardees, subcontractors and the key, non-American citizen, members of their companies against multiple USG databases. The findings could be used to determine if the companies or individuals vetted have criminal histories or any association to malign actors. Conducting the reviews prior to granting an award is essential in helping ensure that USAID is not providing material or financial support to individuals or groups that would divert development funds from their intended purpose.
- Consider expanding vetting to include the vetting of American citizens and American companies. This requires Congressional approval.
- Implement a Mission Policy which requires USAID Implementing Partners to notify the USAID/Afghanistan Office of Acquisition and Assistance and the Regional Inspector General of code of ethics violations. The RIG will be responsible for opening an investigation and if appropriate, recommend to the Suspending and Debarment Official that the individual in question be placed on the Excluded Parties List System (EPLS). If the RIG declines to pursue an investigation or to make a recommendation to the Suspending and Debarment Official, the notice should be forwarded to the OAA Office of Compliance and Oversight of Partner Performance (COPP). The Mission Policy should require implementing partners to check with COPP as part of their hiring process.

### **Financial Controls**

USAID employs strict financial controls on all of its development assistance funds. However, implementing partners in Afghanistan noted that while the standard financial controls provide excellent checks and balances, executing regulations written for peaceful work environments is challenging in a war zone where malign actors are actively trying to profit from the unrest and staff recruitment is difficult. Partners also observed that the need to move large amounts of money quickly in order to implement large development projects adds significantly to the challenge of executing proper financial controls. However, everyone recognizes that it is precisely in a war zone where additional financial controls must be in place to mitigate the increased risks. While many of the necessary financial controls require more labor and time, it is critical that they be required in Afghanistan in order to prevent and detect any development funds going to malign groups.

### Recommendations

- Audit 100 percent of locally incurred costs on acquisition and assistance awards at least once during the life of the project.
- Require prime awardees to electronically transfer project funds to any subawardees, when the financial infrastructure exists to do so.
- Obligate recipients of large awards to employ Compliance Officers to ensure compliance with the Federal Acquisition Regulations (FAR).
- Use a market analysis of local commodity prices to protect against over-pricing. Currently CENTCOM maintains a list of local prices that USAID could use.
- Require training in financial controls, reporting requirements and business ethics to subcontractors.
- Require prime contractors to subcontract only with companies registered with GIRoA.
- Require strict general accounting controls such as multiple signatures for each purchase, competitive bids, and verification of market prices. They are labor intensive but necessary in high risk areas.
- Incentivize the reporting of potential funds misuse to investigative units. For example, offer a financial “reward” if a report is a credible lead.

#### **Best Practice: Fraud Prevention and Investigation**

In May of 2010, a USAID implementing partner established a project specific Fraud Prevention Investigation Unit with three full-time investigators. Its purpose is to:

- conduct internal investigations and work closely with the USAID IG on allegations of corruption;
- train staff members on USAID regulations and inform them of zero tolerance for corruption;
- review the project code of ethics; and
- promote awareness of project and SIGAR anticorruption hotlines.

### **Project Oversight**

Oversight of development projects, often referred to as monitoring and evaluation, is a critical component of ensuring that development funds are used for their intended purpose. Additional oversight should be done for projects in high risk areas due to the increased risk of money flowing into the wrong hands. The greatest challenge to providing oversight of development projects in Afghanistan is the limited ability for program officers to visit sites due to the dynamic security environment.

### Recommendations

- Establish a monitoring unit within the Mission to monitor awards/program performance in high risk areas.
- Use expatriate and local project staff, as well as independent contractors for monitoring. Each has its own advantages and using all three provides a more complete report of project activities and visibility into any possible misconduct.

#### **Best Practice: Project Monitoring Technology**

A USAID Implementing Partner operating in an area that is not permissive enough to monitor with traditional methods sends local monitors to project sites with a GPS tracking device and a digital camera. The benefits are:

- Project monitors can discreetly take pictures and hide the GPS tracking device under their vehicle, to minimize their visibility in high-risk areas.
- The camera and GPS device provide time and date stamps of exactly when and where the photos were taken.
- All of the data can be loaded onto mapping software to provide graphic representation.

- Coordinate with firms, NGOs, and military personnel already in the field to monitor projects that USAID personnel cannot access on a regular basis.
- Solicit input from the local community in the monitoring of projects.
- Increase use of technology such as GPS, and satellite imaging for performance monitoring.
- Require monitors to ask directly about any threats from malign groups.
- Train program monitors in the functional areas they are intended to monitor as well as in monitoring methodologies.
- Train USAID Field Program Officers in project monitoring.

## **IMPLEMENTATION**

USAID/Afghanistan is actively responding to the A3 recommendations, and as of June 2011 has taken the following steps:

- Implementation of a subcontractor clause in new awards that permits USAID to restrict the number of subcontract tiers, requires the prime contractor to perform a certain percentage of the work and prohibits subcontract “brokering” or “flipping” which is when a subcontractor passes the work to someone else.
- Established an internal Vetting Support Unit to perform security checks on potential USAID implementing partners. Vetting is only executed on third-country and Afghan companies and key individuals, and occurs for all prime and subcontractors with awards of \$150,000 and more.
- Established a joint program with the USAID Inspector General to audit all locally incurred costs of program-funded implementing partners.
- Devolved more project monitoring responsibilities to USAID personnel in the five regional commands through the establishment of On-Site Monitors.

Ongoing implementation of the A3 recommendations is being executed through a detailed Implementation Plan managed by the A3 team in Washington and Afghanistan.

**TAB I: COMISAF's Counterinsurgency Contracting Guidance, September 8, 2010**





**Headquarters  
International Security Assistance Force  
Kabul, Afghanistan**



08 September 2010

COMISAF/CDR USFOR-A

For the Commanders, Contracting Personnel, Military Personnel, and Civilians of NATO ISAF and US Forces-Afghanistan

**SUBJECT:** COMISAF's Counterinsurgency (COIN) Contracting Guidance

The scale of our contracting efforts in Afghanistan represents both an opportunity and a danger. With proper oversight, contracting can spur economic development and support the Afghan government's and ISAF's campaign objectives. If, however, we spend large quantities of international contracting funds quickly and with insufficient oversight, it is likely that some of those funds will unintentionally fuel corruption, finance insurgent organizations, strengthen criminal patronage networks, and undermine our efforts in Afghanistan.

In view of these points, contracting has to be "Commander's business." Indeed, I expect Commanders to consider the effects of our contract spending and understand who benefits from it. We must use intelligence to inform our contracting and ensure those with whom we contract work for the best interests of the Afghan people. We must be better buyers and buy from better people. Consistent with NATO and national contracting laws and regulations, we must:

**Understand the role of contracting in COIN.** Purchases we make for construction, goods, and services can bolster economic growth, stability, and Afghan goodwill toward their government and ISAF. Contracts with Afghan firms that procure Afghan goods and services generate employment and assist in the development of a sustainable economy. However, if we contract with powerbrokers who exclude those outside their narrow patronage networks or are perceived as funneling resources to one community at the expense of another, the effect on Afghan perceptions and our mission will be negative. Thus, we must incorporate COIN Contracting topics into training for Commanders.

**Hire Afghans first, buy Afghan products, and build Afghan capacity.** Use contracting to hire Afghan workers and Afghan-owned companies. If we are unable to contract with an Afghan company, encourage companies to hire Afghans and sub-contract with responsible Afghan firms. Emulate successes such as NTM-A/CSTC-A's Afghan First program that created a boot making industry in Kabul. Find solutions that tap existing, but sometimes limited, Afghan capacity, such as maximizing the opportunities for local small and medium-sized companies to compete for our contracts. Adapt procedures, such as facilitating base access, to remove obstacles to hiring Afghans. Wherever appropriate, use in-country sourcing rather than imports. Look for opportunities to incorporate maintenance and repair training in existing contracts to build Afghan skills and to create long-term employment. Focus efforts on promoting industries with immediate and long-term growth potential, such as agriculture, food processing, beverages, and construction. Adopt a fair wage and fair price approach that minimizes market shock and inflation. Guard against "front businesses" that fraudulently claim to be Afghan-owned.

**Know those with whom we are contracting.** Where our money goes is as important as the service provided or the product delivered. Establish systems and standard databases for vetting vendors and contractors to ensure that contracting does not empower the wrong people or allow the diversion of funds. Support contracting agencies and officers so they can get out in the field and build relationships with local businesses and community leaders. Gain and maintain visibility of the sub-contractor network. Contract with vendors that have fewer sub-contractors. Excessive sub-contracting tiers provide opportunities for criminal networks and insurgents to divert contract money from its intended purpose. Hold prime contractors responsible for the behavior and performance of their sub-contractors. Ensure that prime



contractors provide detailed information on all sub-contractors consistent with coalition requirements and with CENTCOM Contracting Command's new sub-contractor clause.

**Exercise responsible contracting practices.** While we all desire fast results, haste in contracting invites fraud, waste, and abuse. Plan ahead, establish reasonable timelines, and ensure transparency and oversight so that contracting and procurement reinforce rather than detract from our objectives.

**Integrate contracting into intelligence, plans, and operations.** Commanders must know what contracting activity is occurring in their battlespace and who benefits from those contracts. Integrate contracting into intelligence, plans, and operations to exert positive influence and to better accomplish our campaign objectives. Commanders should use COIN Contracting Management Boards to coordinate contracting efforts and ensure contracts support campaign goals. Commanders and contracting agencies should share best practices, align policies and procedures, and exchange information on contractor performance—positive or negative (using digitally linked CIDNE/INDURE databases).

**Consult and involve local leaders.** Use local shuras and Afghan government and private sector leaders to prioritize projects, identify viable companies, vet potential contractors, improve oversight, hold contractors accountable, and provide post-award feedback to inform future projects. Work with and through the Ministry of Rural Reconstruction and Development to leverage existing monitoring, procurement, and implementation capabilities and to build long-term Afghan institutional capacity.

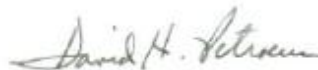
**Develop new partnerships.** Contracts with a broader range of Afghan companies will help break monopolies and weaken patronage networks that breed resentment. In situations where there is no alternative to powerbrokers with links to criminal networks, it may be preferable to forgo the project. Broadly advertise contract opportunities to local communities beyond bases. When appropriate, use NGOs to identify potential contracting partners and train them to navigate our contracting processes.

**Look beyond cost, schedule, and performance.** Evaluate the success of a contract by the degree to which it supports the Afghan people and our campaign objectives. Include operational criteria in decisions to award contracts such as the effect of the contract on security, local power dynamics, and the enemy.

**Invest in oversight and enforce contract requirements.** Ensure post-award oversight of contractors and their performance to get what we pay for and to ensure the contract supports our mission. Because the number of contracts each contracting officer oversees has increased, commands must devote additional personnel to oversight. Designate top-performers to serve as Contract Officer Representatives and ensure that they are trained and understand the operational importance of contracting.

**Act.** Upon identification of linkages between contractors and criminal networks, we must take appropriate actions, such as: suspension and debarment of the individuals or the company, contract termination, or not renewing a contract option period. Recognize that some of these actions may have broad or significant ramifications and plan accordingly. Establish rapid, flexible, and thorough processes to develop, coordinate, approve, and implement contract actions to end contracts that undermine our mission.

**Get the story out.** We must improve our contracting practices to ensure they fully support our mission. However, we must also recognize what our contracting has accomplished. Our contracting efforts have sustained widely dispersed and high tempo operations and helped build Afghan national security capacity. Our contracting has also improved the lives of many Afghans, enhanced infrastructure, delivered essential services, supported local businesses, increased employment, and fostered economic development.



David H. Petraeus  
General, United States Army  
Commander, International Security Assistance  
Force/United States Forces-Afghanistan

**TAB 2:** U.S. Embassy/Kabul Contracting Oversight in Counterinsurgency Strategy, November 3, 2010

---



*Embassy of the United States of America*  
**Kabul, Afghanistan**

**MEMORANDUM**

November 3, 2010

**TO:** All Mission Personnel

**SUBJECT:** Contracting Oversight in Counterinsurgency (COIN) Strategy

Our counterinsurgency efforts in Afghanistan demand a holistic approach that brings all aspects of our national power to bear, both civilian and military. Recently General Petraeus emphasized to his commanders the need for oversight of procurement and contracting actions as part of our counterinsurgency (COIN) strategy. Our mission must fully share in that oversight as we carry out our programs and operations.

While the principle of "Afghanization" remains the key to ensure that Afghans lead, not follow, in their path to a secure and economically viable nation, it is nevertheless incumbent on all Mission leaders and staff to ensure that we are not placing money in the hands of insurgents, criminal patronage networks, corrupt powerbrokers or other malign actors that fatally undermine the legitimacy of GIRoA. Contracts and grants executed without understanding the local environment, applying proper controls and providing sufficient oversight, can inadvertently fuel the insurgency and delay progress in the establishment of viable economic and civil institutions in Afghanistan. In the complex and unique environment in Afghanistan, agency and section heads have the responsibility to ensure that the contract objectives are met while simultaneously avoiding actions that abet corruption and aid the enemy.

Contracting in Afghanistan poses unique challenges not found in other parts of the world. This problem is exacerbated by geographic separation between Contracting Officers (CO)/Contracting Officer's Representatives (COR) and the place of performance. We need to improve post award oversight, while at the same time building the capacity of local organizations and increasing the use of local procurement. Agency leads should recognize that a degree of prudent risk must be accepted. Solutions should leverage existing markets with the understanding that doing so may stretch Afghan capacity. Therefore, Contracting professionals must use due diligence to assist our Afghan business partners to develop their skills and capacity, and to identify and develop alternative suppliers to break up supply monopolies. Contractual remedies should be applied to influence behavior after the award, which may include termination in some cases.

Agency and Section Heads should have a comprehensive understanding of contracting efforts and their effects. Transparency in sub-contracting is key to our efforts. Ever increasing layers of sub-contracts are a significant barrier to oversight of the final product and the transparent flow of funds. Overpaying often leads to an excessive numbers of sub-contractors, provides opportunities for corruption and results in the purchase of substandard goods and services. Civilian agencies must coordinate, communicate and share information, not only with DoD, but within the civilian interagency. It is critical that our contracts support our mutual campaign plan and that policy and procedures are shared. As in any contracting environment, we must ensure that we get what we paid for and that quality standards are met. We must also hold program



management responsible and accountable for the performance of prime contractors and their subcontractors in order to ensure on-time, quality delivery of goods or services and the elimination of corruption. Recognition should be given to those COs/CORs who decline to award or delay the award of a contract because it is not possible to determine where the money would go, or because adequate oversight (including performance audits) is not possible.

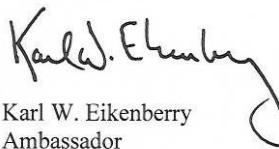
International military forces and development agencies are significant players in the Afghan economy. Our influence will be more positive to the extent that we actively partner with Afghans and Afghan companies to create jobs. Hiring Afghans, buying Afghan products, and building Afghan capacity is a central component of COIN contracting in this country. Properly executed and administered procurement actions reinforce the COIN strategy, and contribute to a solid economic foundation. Our guiding principles are:

- 1. Afghan Leadership and Ownership:** Ensure that procurement responds to the needs of Afghans and is accountable to the Afghans it is meant to support.
- 2. Afghan Participation:** Promote the Afghan private sector in their management and delivery of goods, services and construction while fostering entrepreneurship.
- 3. Afghan Capacity Development:** Assist in developing Afghan labor force's skills and capabilities.
- 4. Afghan Sustainability:** Focus on business opportunities via local procurement thereby reducing support for the insurgency, making foreign assistance more effective, and ultimately reducing Afghan dependence on development assistance.

Part of strengthening the capacity of the Afghan Government is taking concrete steps that preclude activities that fatally risk undermining it. Contracting dollars spent in-country can have a positive effect on the Afghan economy and the Afghan people, but only when money is spent carefully, purposefully and with adequate oversight. In Afghanistan, the measure of success in contracting is not the amount of money spent or the number of projects initiated. Success must be measured by the extent to which our contracting dollars support our overall counterinsurgency and development strategies.

In short, we must do things differently. We must understand and act on the knowledge that where our money goes is as important – possibly more important – than the product or service delivered. To put it simply: We are who we fund.

Respectfully,



Karl W. Eikenberry  
Ambassador